

1. Cost Buy Downs vs. Standard \$.50 Buy Downs/VPR/Coupons

The MWSA will have a standard policy regarding all buy downs on Full Price brands.

The No. 1 priority should be to get the retailer to buy down based on cost. This has proven to be the best way to reduce retail price and give us a price advantage over the competition.

**Example:** Jones Supermarket buys Full Price brands at \$18 per carton and takes a 20% mark-up. Retail price is \$21.60. You ask him to buy down based on cost and you will give him up to \$5.00 off per carton. To do a Cost Buy Down you must know the retailer's cost per carton and his mark-up.

Using Cost Buy Downs, the following would occur:

- a. Retail Cost = \$18.00 minus \$5.00 RJR buy down = \$13.00 new retailer cost (\$5.00 deduction taken before 20% mark-up taken)
- b. New retailer cost = \$13.00  
x 20% markup  
New retail price = \$15.60 or \$1.56 per pack
- c. Retailer may also be willing to discount an additional \$.10 to reduce price to \$1.46 per pack

Using the Standard \$.50 Buy Down/VPR/coupon method, the following would occur:

- a. Retail Cost = \$18.00  
x 20% markup  
Retail price = \$21.60 or \$2.16 per pack minus \$.50 = \$1.66 per pack.
- b. Retailer may also be willing to chip in an additional \$.10 to reduce price to \$1.56 per pack

\*\*\* By utilizing the Cost Buy Down method, we are able to gain a \$.10 price advantage over using Standard \$.50 Buy Downs/VPR/Coupons, yet our cost remains the same.

**Important:** Whenever you approach a retailer with the Cost Buy Down method, you should state that you will offer up to a \$5.00 discount per carton. The retailer should make the decision on what discount he wants. If your retailer will not agree to use the Cost Buy Down approach then you should utilize the standard \$.50 Buy Down/VPR/coupon strategy. Retailers who select the Cost Buy Down method will have a pricing advantage over those with standard discounts in most cases. The \$.50 Buy Down/VPR strategy should be the exception rather than the rule.

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